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Azerbaijan's Social Policy Response to COVID-19

By Farid Guliyev

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Abstract

Azerbaijan's social assistance and income support schemes adopted during the COVID-19 pandemic need to be seen within the context of the existing social protection system and safety nets. While the existing system is operational and has the technical capacity to respond and deliver social policies, it has had two key shortcomings: 1) low benefit rates and 2) issues in coverage, notably the exclusion of informal employees and migrant workers. Left unaddressed *ex ante*, they caught the system off-guard *ex post* when the coronavirus pandemic broke out. As a result, although COVID-related social assistance measures (especially cash transfers) were implemented without delay and provided some immediate relief for vulnerable and affected social groups, they fell short of covering sizable sections of the population, namely informal workers and Azerbaijanis working in Russia. It is also doubtful that such assistance can improve future wellbeing of vulnerable groups, whose living standards are likely to worsen during and after the economic fallout from the pandemic.

Background

Following the first reported case of COVID-19 on February 29, 2020 and the subsequent surge in coronavirus cases, Azerbaijan imposed a series of lockdown measures to prevent the spread of the disease. In the beginning of March, with only a few cases confirmed, all schools, universities and kindergartens were closed, and on March 13 further restrictions on social gatherings were introduced (Bagirova 2020). A strict quarantine regime was enforced starting March 24. Lockdown measures were eased somewhat on April 27 but reintroduced again on June 18 after the number of infected citizens spiked (Bagirova & Antidze 2020a). It was eased again on August 5. As of September 30, 2020, the authorities reported 40,229 total confirmed cases, 37,954 recoveries and 591 coronavirus-related deaths (Ministry of Health 2020).

The outbreak of COVID-19 wrought havoc on international energy markets, causing a massive fall in oil demand and a slump in oil prices. Like in other oil-producing countries, Azerbaijan's economy suffered a great deal (Guliyev 2020). Closed borders with Iran and Russia, as well as a significant drop in FDI in recent years, amplified the economic downturn. However, as in previous crises, Azerbaijan had an oil savings fund [State Oil Fund, or SOFAZ] with total assets of USD 43 billion to come to its rescue (Ahmadov 2019). SOFAZ sold some of its US dollar assets in several rounds to keep the foreign exchange rate stable and avoid another devaluation of the manat (Bagirova & Antidze 2020b; Nice 2020). In April, the government unrolled an aid package worth AZN 3.3 billion (OECD 2020a). Azerbaijan's budget is dependent on oil earnings: up to 40–55 percent of the state budget consists of transfers from the state oil fund (SOFAZ) (ADB 2020). Low oil prices reduced the accrual of oil fiscal revenues into SOFAZ, causing a fiscal deficit (Fitch Ratings 2020). The government had to revise its budget in early August to adjust for the increase in social payments and business support packages. In light of low oil prices (\$35 per barrel) and the resulting reduced state budget revenue assumption, the revised budget stipulates an increase in transfers from SOFAZ by AZN 850 million, resulting in an increase in the annual state budget deficit from AZN 2.8 billion to AZN 3.4 billion (IMF 2020).

Social Protection System

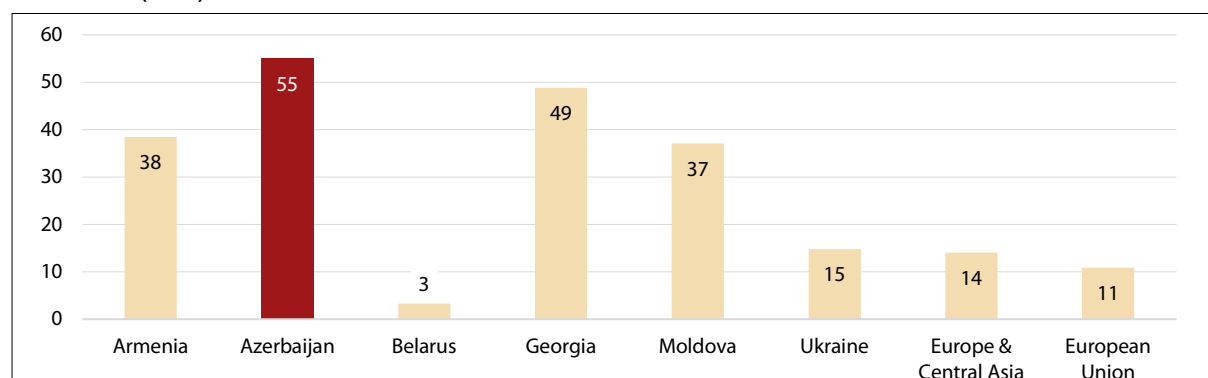
Azerbaijan possesses a social protection system which has improved its technical and management capacities and service delivery since the completion of a centralized electronic system in 2013. Social protection is administered by the Ministry of Labor and Social Protection of the Population (MOLSPP; Əmək və Əhalinin Sosial Müdafiəsi Nazirliyi) and the State Social Protection Fund (SSPF; Dövlət Sosial Müdafiə Fondu). The SSPF is an extra-budgetary institution responsible for social insurance (sick leave compensations, unemployment benefits) and pensions.

However, there are two deficiencies in the existing social security system: the inadequacy of benefit rates, and gaps in coverage relating to the large size of the “shadow economy” (de Vendevre 2016). The COVID-19 pandemic exposed and revealed these weaknesses embedded in the existing social protection system.

The rate of social benefits remains insufficient to produce sustainable effects on improvement of living standards and alleviation of poverty in the long run. Considering its oil wealth, Azerbaijan has generally underinvested in health care provision, social welfare and education of its citizens (Caucasus Analytical Digest 2016; Guliyev 2019). As a result, the quality of education has suffered a decline, enrollment in tertiary education remains low at around 20 percent (Garcia Moreno & Patrinos 2020), and employers report shortages of high-skilled workers (Rutkowski 2015).

A 2012 World Bank study described government spending on social transfers as “modest” (Onder 2012, p. 8). For example, from 2005 to 2008, there was an increase in the minimum monthly pension by a factor of 2.5, from AZN 25 to AZN 60 [the exchange rate being 1 AZN =1 Euro at that time] (World Bank 2016). However, AZN 60 was still below subsistence level, implying that beneficiaries of the old pension system without supplemental income were living far below the poverty line. In recent years, minimum pensions have been further raised, affecting 660,000 people. Most recently, by a presidential decree dated October 1, 2019, the minimum monthly pension rate was increased to AZN 200 (now about EUR 100), which, after accounting for the devaluation of the national currency in 2015, makes this raise look quite modest (‘Minimum pension level’, 2019). Social allowances are set at a fixed rate of AZN 66 for old-age and disability, AZN 61 for survivors.

Figure 1: Share of Vulnerable Workers in Eastern Partnership [EaP] Countries as Percentage of Total Employment (2020)



Note: vulnerable workers are defined as self-employed workers without employees or contributing family workers

Source: World Bank Development Indicators 2020

Given the insufficiency of social transfers in alleviating poverty, especially in rural areas, many vulnerable groups rely on informal safety nets—i.e. kinship, family networks and community networks of mutual assistance, as well as inflows of remittances from Russia, where thousands of Azerbaijanis work (Sadigov 2018). These shortcomings are amplified by Azerbaijan’s retention of the Soviet-style healthcare model, run through a centralized planning system with public ownership of medical facilities and funded through the state budget (Bonilla-Chacin, Afandiyeva & Suaya 2018, p. 14). As public expenditure on health has been relatively low and the introduction of mandatory health insurance has been delayed, many citizens rely on out-of-pocket (OOP) payments—such expenditures constitute 83.9 percent of total current health spending (World Bank/WHO 2017). Azerbaijan set up the State Agency for Mandatory Health Insurance [İcbari Tibbi Sığorta üzrə Dövlət Agentliyi] in 2016 to steer the process of gradual introduction of mandatory health insurance (first piloted in three regions, Mingachevir, Yevlakh, and Aghdash), a process which was expected to be completed this year (2020). However, due to the COVID-19 pandemic and rising costs, the introduction was postponed until 2021 (Talibli 2020).

Not only the rate of social benefits is insufficient: social assistance also does not cover informal workers and the self-employed, who comprise a sizable portion of the working-age population. These individuals are not covered by the existing social security system due to lack of a formal contract. Informal employment is estimated at 26.5 percent of non-agricultural jobs. According to International Labor Organization estimates, 407,000 persons held informal jobs in Azerbaijan as of October 2009 (Sayfutdinova 2015; Guliyev 2015). Furthermore, as much as 55 percent of the labor force in Azerbaijan have been designated as “vulnerable workers” (see Figure 1) (OECD Eurasia 2020; World Bank 2020).

Government Response

The authorities’ response to COVID is encompassed in two key executive decisions: Presidential Order No. 1950 dated March 19, 2020 [which mentioned budget allocations in the amount of AZN 1 billion] and the Action Plan [Tədbirlər Planı] prepared according to the Cabinet of Ministers’ Order No. 135 released on April 4, 2020 covering the period April–December 2020 (Presidential Order 2020; Action Plan 2020). The presidential order tasked a working group within the Ministry of Economy to identify vulnerable enterprises and workers and estimate losses due to coronavirus. Implementation of COVID-related support policy was steered by the special “COVID-19 Operational Headquarters” created under the Cabinet of Ministers.

The government increased expenditure on public health (AZN 8.3 million) and established a COVID Response Fund on March 19 (AZN 114 million) (IMF 2020; Presidential Decree No. 1948). With respect to social welfare, the government announced income support programs targeting vulnerable groups and businesses such as low-income households and microentrepreneurs (see Table 1).

Table 1: Azerbaijan: Specific support measures for business owners, socially vulnerable groups and employees according to the Cabinet of Ministers Action Plan released on April 4, 2020

Measure	Amount (in million AZN)
Partial coverage of salaries	215
Support to microentrepreneurs	80
Temporary public jobs	54
Subsistence and unemployment payments*	230
Pensions	200
Targeted social assistance	4.5
Energy and education subsidies	20
Additional funds to Entrepreneurship Development Fund	50
Total	853.5

*Note: the total for unemployment payments (cash transfers) indicated here is from the IMF, and was later increased to 336 million AZN to cover more people.

Source: IMF, Policy Responses to Covid-19, last updated: September 11, 2020, [https://cabmin.gov.az/az/document/4367/](https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-Covid-19; Action Plan of Cabinet of Ministers 2020, <a href=)

Social Assistance Policies

The government social support package had three key components, focusing mostly on cash transfers, job retention and employment-related compensations: 1) support for contract-based employees (“muzdlu işçilər”), 2) support for individual entrepreneurs (“fərdi (mikro) sahibkarlar”), and 3) cash support for unemployed and low-income individ-

uals working in informal jobs (“işsiz və xüsusi karantin rejimində işini itirən qeyri-formal işləyən aztəminatlı şəxslər”) (Ahmadov et al. 2020).

The government claims that its existing social protection programs (i.e. social security and employment) cover 4.8 million citizens (48 percent of the total population of 10 million), including 1.7 million employees through secured salaries, 2 million citizens through social insurance (pensions, scholarships), 350,000 through targeted social assistance, 600,000 through cash transfers in April–May (283,000 in July), 90,000 through new public works jobs, 12,000 self-employed families through support for small entrepreneurs, 20,000 through unemployment insurance, and 100,000 families through food support (Ministry of Labor and Social Protection 2020a). The total allocated government support equals AZN 2.5 billion. Up to 42.5 percent of state budget expenditures (or about AZN 4.984 billion) in H1 2020 were socially-oriented payments (Gasimli 2020).

1) Support for Contract-Based Employees (“Muzdlu İşçilər”)

According to the Action Plan, contract-based employees—both public- and private-sector—were eligible to receive partial compensation for wage losses due to COVID-19 covering the first two months of the pandemic in Azerbaijan (April–May) (Ministry of Taxes 2020a). The average monthly wage, AZN 712 [EUR 355], was used as the main criterion for determining eligibility (Ministry of Economy 2020a).

In the first phase, 215,689 employees were covered and the government allocated funds in the amount of AZN 98 million, meaning each beneficiary received on average AZN 454 (as of 28.07.2020) (Vergiler.az 2020a). While government-sector employees received full compensation, private sector employees got only partial compensation for salaries. The number of government-sector employees was estimated at 900,000 (Ministry of Labor and Social Protection 2020b).

In the second stage, covering the months of August–September, 228,175 persons were covered with a total of AZN 50.4 million (as of 18.08.2020) (Ministry of Taxes 2020b).

2) Support for Individual Microentrepreneurs

Microentrepreneurs were identified as those who pay the simplified tax rate of 2 percent. If in 2019 they paid less than AZN 250 in taxes, they would receive that amount in support, i.e. AZN 250. The ceiling for cash support was set at AZN 5,000 (Ministry of Economy 2020a).

As of 06.08.2020, in the first stage, 106,907 taxpaying entrepreneurs received AZN 63.6 million, i.e. receiving on average AZN 695. In the second stage, 49,329 taxpaying microentrepreneurs received aid in the amount of AZN 12.3 million (as of 13.08.2020) (Ministry of Economy 2020b).

3) One-Off Cash Support for Unemployed and Low-Income Individuals Working in Informal Jobs

Unconditional cash transfers have been the most widespread form of social protection response to COVID-19 in Azerbaijan (Gentilini et al. 2020). Here the government adopted a simple scheme—paying a lump sum of AZN 190 (EUR 94.5) (calculated as the monthly minimum income level) to 200,000 persons for two months (April, May) as well as for the creation of 50,000 new public works jobs. This coverage was later extended to 600,000 unemployed and informally employed persons and the number of public work jobs was increased to 90,000 (from the already high 60,000) (Ministry of Labor and Social Protection 2020c).

In April–May, each month 600,000 persons received cash payments (the total amount spent for these first two months reaching AZN 229 million)(see Table 2). During the month of June, when a strict quarantine regime was in force in only certain cities and regions, the one-off cash payment covered 283,000 individuals, totaling about AZN 55 million (Vergiler.az 2020b). In the fourth installment completed on August 21, 2020 (after skipping the month of July) (Azadliq Radio 2020a), 272,000 persons received cash totaling AZN 52 million. The grand total of cash payments during the quarantine period thus amounted to AZN 333 million (Ministry of Labor and Social Protection 2020d).

Table 2: Cash Transfers during the Pandemic

	April	May	June	August
N of people	600,000	600,000	283,000	272,000
Sum (in million AZN)	229		55	52

Source: Vergiler.az, <https://vergiler.az/news/social/9963.html>

Gaps and Shortcomings

First, while the government's response was generally in line with policy reactions in other countries, it seems doubtful that the amount of social support was enough to support individuals and small business entrepreneurs in life after the pandemic. Cash transfers in the amount of the minimum wage of AZN 190 (AZN 6.3 or 3 euro per day) is barely enough to make ends meet and many households have experienced falling standards of living, potentially raising the risk of social discontent. By comparison, Italy provided flat-rate monthly payments of EUR 600 to self-employed workers, and through its "Corona Supplement" Germany allocated lump-sum cash transfers of up to EUR 15000 (depending on number of employees) for firms to distribute among their employees (OECD 2020b). Azerbaijan's support for microentrepreneurs may also be insufficient considering the fragility of SMEs [small and medium-sized enterprises] in emerging market economies with weak private sectors (Guliyev 2020).

Moreover, unconditional cash transfers were allocated to individuals and families without taking into account their needs and whether a person had any dependents. Persons who had a salaried spouse were excluded from aid provision, while unemployed single adult children were eligible even if their parents were wage earners. Disparities were apparent. For example, a single woman without a child would receive the same fixed amount as a divorced woman with two children. The transfer scheme also failed to consider a person's income level—obviously, individuals without any personal savings (obviously hinging on past income) were hit the worst, and would logically need much more substantial relief.

Second, how inclusive is Azerbaijan's social security system? At least two large groups seem to be excluded: informal workers and Azerbaijani migrants living in Russia. Informal workers were excluded from cash support schemes in other countries as well (OECD 2020b; Yu 2020).

Support packages missed thousands of self-employed as well as temporarily/informally employed people. If the government admitted paying 600,000 individuals unemployment and low-income benefits, this indicates that the real unemployment rate is almost certainly higher than the officially declared 5–6 percent (297,800 people); possibly up to 12 percent of the population may be currently unemployed (Azadliq Radio 2020b). This comes in addition to the existing social protection system already being geared towards formal and contract-based employees, since only those with formal job contracts are entitled to social security benefits such as pensions and social allowances.

Azerbaijan has a sizable community of expatriates living in Russia and supporting their families back home with remittances. As of early 2019, this number is estimated at around 670,000. Azerbaijani workers have been hit hard due to lockdown measures in Russia, and closed borders (since March 2020) made it difficult to impossible to send money home (Quinn 2020). It is estimated that remittances sent by Azerbaijanis abroad amount to EUR 926.7 million annually. In June 2020, hundreds of Azerbaijanis (300 persons), some of whom reportedly lost their jobs in Russia, attempted to cross the border at Dagestan, leading to clashes with riot police (Azerbaijanis Arrested 2020).

Conclusion

While the Azerbaijani government took measures to alleviate distress during the COVID-19 pandemic through increased social payments and implemented the announced policies swiftly, questions remain as to whether the rate of social benefits was sufficient to provide socially vulnerable groups with sufficient incomes to meet their needs during and after the pandemic. Although the authorities attempted to target the most vulnerable groups, such as low-income households, large sections of the population appear to have been left behind. These large segments include informally and self-employed individuals and remittance-sending migrants.

There seems to be an urgent need to improve reporting and accounting standards for data collection in Azerbaijan. The social programme schemes would have benefitted from incorporation of monitoring and evaluation mechanisms; developing such mechanisms would allow better design and targeting of social assistance policies in the future.

About the Author

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Georgia's Social Policy Response to COVID-19: Targeted Social Assistance

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Abstract

The new coronavirus has turned out to be an unprecedented and unexpected crisis which has led to rethinking of healthcare, public safety and socio-economic policies. Severe problems have manifested themselves in these areas in Georgia, a developing country with below-average income levels and high poverty rates. Although the principle of the welfare state has been constitutionalized in the recent past and this has been followed by some socio-economic steps, Georgia is still far from achieving its goals.

The pandemic and related legislative constraints have caused a deep recession, which has resulted in reduced incomes and lost jobs. In the initial stages of the pandemic, the population was left without assistance and subsequently faced an economic downturn. At the same time, the government decided to take stringent socio-economic measures due to the uncertainty about the potential dangers of the new virus and the vulnerability of the Georgian healthcare system.

The government's efforts to provide social assistance for the population were delayed and faltered in terms of efficiency, but overall, more or less complex schemes of assistance were elaborated. Part of the population was provided with basic social assistance, while the government failed to offer aid to some of its most needy citizens. With the virus spiralling out of control, lockdown is no longer an option and the vision of the government concerning socio-economic developments is still vague.

Background

The Georgian government's efforts to curb the spread of the virus were effective in the first phase of its spread, yet the same cannot be said about the government's social policy. Stringent government regulations put households in the position of considerable socio-economic crisis, leaving citizens in need of state assistance. The government responded to citizens' solicitations only with significant delay.

Stage one pandemic measures in Georgia started a month before the first case of the virus was confirmed. On January 28th, the Georgian government approved an action plan (Decree of the Government of Georgia 164) focused on containing the new coronavirus. The government commenced with preparations of the healthcare system, issuing recommendations and designing

protocols, while at the same time making efforts to raise public awareness about the virus. An Interagency Coordinating Council¹ was established to make decisions on epidemiological issues. Air traffic with China was suspended on January 29th. On February 26th, 2020, a traveller from Iran via Azerbaijan was the first Georgian citizen diagnosed with COVID-19. He was taken to the Tbilisi Infectious Diseases Hospital directly from the border crossing. Traveling to and from Italy was thereafter the main cause of further infection spread (Factcheck.ge, 2020).

The Georgian government imposed strict regulations before the pandemic was declared. Some of these measures proved confusing, and arguably unnecessary. Events for large crowds were banned on March 1st while schools, kindergartens and universities suspended their

1 The Council consists of government officials, MPs, representatives of the Administration of the President of Georgia, and medical specialists.